

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EB-07 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01 OES-03

SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01 USIA-06

PRS-01 /095 W

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P 162201Z APR 75

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC PRIORITY 6158

C O N F I D E N T I A L OTTAWA 1370

POUCHED TO CALGARY AND VANCOUVER FOR INFO

E.O. 11652: GDS

TAGS: ENRG, CA, US

SUBJ: ENERGY: INCREASE IN NATURAL GAS EXPORT PRICE

REF: OTTAWA 1304

1. ECON COUNSELOR RAISED QUESTION OF NATURAL GAS EXPORT PRICE WITH NEW EMR DEPUTY MINISTER GORDON MACNABB ON APRIL 16, NOTED PRESS REPORTS THAT GOC DECISION TO INCREASE EXPORT PRICE SIGNIFICANTLY MIGHT BE IMMINENT, ASKED FOR STATUS REPORT AND IN PARTICULAR WHETHER GOC INTENDED TO OFFER USG CHANCE TO CONSULT.

2. MACNABB SAID GOC MINISTERS WILL CONSIDER MATTER NEXT WEEK. HE SAID HE HAD AGREED WITH EXTAFF UNDER SECRETARY BASIL ROBINSON THAT USG SHOULD BE ADVISED OF ANY MINISTERIAL DECISION TO INCREASE PRICE AT LEAST A DAY IN ADVANCE OF PUBLIC ANNOUNCEMENT. MACNABB SAID SUGGESTIONS IN PRESS THAT INCREASE WOULD
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BE PUT INTO EFFECT ALMOST IMMEDIATELY WERE INCORRECT.

GOC RECOGNIZES NEED TO PERMIT U.S. REGULATORY PROCEDURES TO RUN THEIR COURSE. EFFECTIVE DATE OF ANY INCREASE WOULD PROBABLY BE AUGUST 1. ON ASSUMPTION DECISION WERE ANNOUNCED BEFORE END OF APRIL, THIS WOULD ALLOW "REASONABLE" THREE-MONTH PERIOD BEFORE HIGHER PRICES EFFECTIVE. AT END OF CONVERSATION, MACNABB REITERATED HIS INTENTION TO MAKE SURE USG RECEIVES ADVANCE NOTIFICATION OF ANY PUBLIC ANNOUNCEMENT.

3. COMMENT: ALTHOUGH MACNABB WAS NON-COMMITTAL ON PROBABLE OUTCOME OF MINISTERIAL CONSIDERATION, EMBASSY CONSIDERS IT ALMOST FOREGONE CONCLUSION THAT DECISION WILL BE TO INCREASE EXPORT PRICE TO REFLECT SUDDENLY HEIGHTENED CONCERN IN CANADA OVER PROSPECTIVE GAS SHORTAGES FOR DOMESTIC CONSUMERS AND RECOGNIZED NEED FOR ADDITIONAL REVENUES TO COMPANIES FOR MORE RAPID EXPLORATION AND DEVELOPMENT, AND TO HEAD OFF POSSIBLE UNILATERAL ACTIONS BY B.C. AND ALBERTA TO INCREASE PRICES IN THE FACE OF FEDERAL INACTION OR INABILITY TO IMPOSE A NATIONAL PRICE POLICY PRIOR TO PARLIAMENTARY APPROVAL OF THE NATIONAL PETROLEUM ADMINISTRATION ACT (BILL C-32).

4. WHEN PRICES WERE INCREASED TO \$1.00 LAST FALL ON THE RECOMMENDATION OF THE NEB, IT WAS INDICATED THAT FURTHER INCREASES WOULD BE PHASED-IN OVER A PERIOD OF SEVERAL YEARS UNTIL GAS PRICES WERE EQUATED WITH OIL PRICES ON A BTU-EQUIVALENT BASIS. AT THAT TIME IT WAS AT LEAST IMPLIED THAT THE INCREMENTAL INCREASES WOULD BE IN THE ORDER OF 20 CENTS PER MCF AND ALSO THAT INCREASES FOR CANADIAN CONSUMERS WOULD ALSO BE MANDATED BUT OVER A LONGER TIMEFRAME. IT WOULD NOW APPEAR THAT FOR REASONS MENTIONED IN PARA 3 ABOVE THE SCENARIO IS BEING ACCELERATED AND THAT EXPORT PRICE INCREASE WILL COME SOONER AND BE GREATER (POSSIBLY TO \$1.50 PER MCF OR SLIGHTLY MORE BUT ALMOST CERTAINLY NOT TO \$2.00 AS PROPOSED BY B.C. PREMIER BARRETT) THAN PREVIOUSLY CONTEMPLATED.

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5. HOPEFUL DEVELOPMENT WAS STATEMENT BY ENERGY MINISTER MACONALD IN COMMONS ON APRIL 14: "I AM SUGGESTING THAT IT IS POLITIC ... TO GET A FAIR RETURN FROM OUR EXPORT CUSTOMER BUT IN A WAY WHICH WILL NOT CAUSE HIM EXCESSIVE HARDSHIP. WHILE IN THIS PARTICULAR SITUATION WE MAY HAVE THE ADVANTAGE OVER OUR AMERICAN CUSTOMER, WE SHOULD REMAIN CONSCIOUS AT THE SAME TIME THAT AT SOME FUTURE TIME THE

SITUATION MAY WELL BE REVERSED AND WE MAY BE SEEKING
A SIMILAR TYPE OF ACCOMMODATION FROM THEM, AND
AN APPLICATION OF THE GOLDEN RULE IN THIS CASE
IS PERHAPS NOT ONLY SOUND ETHICS BUT ALSO HAS
PRETTY SOUND PRACTICAL APPLICATION." IT REMAINS
TO BE SEEN HOW THIS ATTITUDE WILL BE REFLECTED IN
UPCOMING POLICY DECISION. PORTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: EXPORTS, NATURAL GAS, MEETINGS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ElyME
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975OTTAWA01370
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750133-0745
From: OTTAWA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750446/aaaabqpm.tel
Line Count: 122
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 OTTAWA 1304
Review Action: RELEASED, APPROVED
Review Authority: ElyME
Review Comment: n/a
Review Content Flags:
Review Date: 05 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 MAY 2003 by Izenbel0>; APPROVED <24 SEP 2003 by ElyME>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ENERGY: INCREASE IN NATURAL GAS EXPORT PRICE
TAGS: ENRG, CA, US
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006